



STATE OF NEW YORK
OFFICE OF THE MEDICAID INSPECTOR GENERAL
90 Church Street, 14th Floor
New York, New York 10007

ANDREW M. CUOMO
GOVERNOR

JAMES C. COX
MEDICAID INSPECTOR GENERAL

August 20, 2014

[REDACTED]
Queens Center for Rehabilitation
and Residential Healthcare
157-15 19th Avenue
Whitestone, New York 11357

Re: Medicaid Rate Audit #08-1979
NPI Number: [REDACTED]
Provider Number: [REDACTED]

Dear [REDACTED]

Enclosed is the final audit report of the Office of the Medicaid Inspector General's (the "OMIG") audit of Queens Center for Rehabilitation and Residential Healthcare's (the "Facility") Medicaid rates for the rate period June 4, 2004 through December 31, 2007. In accordance with 18 NYCRR Section 517.6, this audit report represents the OMIG's final determination on issues raised in the draft audit report.

In response to the draft audit report dated January 28, 2013, you identified specific audit findings with which you disagreed. Your comments have been considered (see Attachment A) and the report has been either revised accordingly and/or amended to address your comments (see Attachment B). Consideration of your comments resulted in an overall reduction of \$919,732 to the total Medicaid overpayment shown in the draft audit report. As previously stated in the draft audit report, the Medicare Part B and D offsets were not within the scope of the review and may be examined as part of a future audit. Based on the enclosed audited rates calculated by the Bureau of Long Term Care Reimbursement, the Medicaid overpayment currently due is \$790,573. This overpayment is subject to Department of Health ("DOH") and Division of Budget ("DOB") final approval. While not anticipated, any difference between the calculated overpayment and the final DOH and DOB approved amount will be resolved with the Facility by the OMIG Bureau of Collections Management.

The overpayment does not reflect the impact on rates subsequent to 2007 that utilized the June 4, 2004 through June 3, 2005 base period for operating expense. Any overpayment resulting from operating expense disallowances in the June 4, 2004 through June 3, 2005 base period report for rates subsequent to 2007 will be addressed in the future.

In accordance with 18 NYCRR Part 518 which regulates the collection of overpayments, your repayment options are described below.

OPTION #1: Make full payment by check or money order within 20 days of the date of the final audit report. The check should be made payable to the New York State Department of Health and be sent with the attached Remittance Advice to:

[REDACTED]
New York State Department of Health
Medicaid Financial Management
GNARESP Corning Tower, Room 2739
File #08-1979
Albany, New York 12237-0048

OPTION #2: Enter into a repayment agreement with the Office of the Medicaid Inspector General. If your repayment terms exceed 90 days from the date of the final audit report, recoveries of amounts due are subject to interest charges at the prime rate plus 2%. If the process of establishing the repayment agreement exceeds 20 days from the date of the final audit report, the OMIG will impose a 50% withhold after 20 days until an agreement is established. OMIG acceptance of the repayment agreement is based on your repaying the Medicaid overpayment as agreed. The OMIG will adjust the rate of recovery, or require payment in full, if your unpaid balance is not being repaid as agreed. In addition, if you receive an adjustment in your favor while you owe funds to the State, such adjustment will be applied against any amount owed. If you wish to enter into a repayment agreement, please contact the Bureau of Collections Management within 20 days at the following:

Bureau of Collections Management
New York State Office of the Medicaid Inspector General
800 North Pearl Street
Albany, New York 12204

[REDACTED]

You have the right to challenge this action and determination by requesting an administrative hearing within sixty (60) days of the date of this notice. You may not request a hearing to raise issues related to rate setting or rate setting methodology. In addition, you may not raise any issue that was raised or could have been raised at a rate appeal with your rate setting agency. You may only request a hearing to challenge specific audit adjustments which you challenged in a response to the draft audit report.

If you wish to request a hearing, the request must be submitted in writing to:

General Counsel
Office of Counsel
New York State Office of the Medicaid Inspector General
800 North Pearl Street
Albany, New York 12204

Questions regarding the request for a hearing should be directed to the Office of Counsel at [REDACTED]

If a hearing is held, you may have a person represent you or you may represent yourself. If you choose to be represented by someone other than an attorney, you must supply a signed authorization permitting that person to represent you along with your hearing request. At the hearing, you may call witnesses and present documentary evidence on your behalf.

Should you have any questions, please contact [REDACTED] or through email at [REDACTED]. Please refer to audit number 08-1979 in all correspondence.

Sincerely,

[REDACTED]

Bureau of Rate Audit
Division of Medicaid Audit
Office of the Medicaid Inspector General

Enclosure

- Attachment A - Facility Draft Audit Report Comments and OMIG Response
- Attachment B - Summary of Changes from Draft Report to Final Report
- EXHIBIT I - Summary of Per Diem Impact and Medicaid Overpayment
- EXHIBIT II - Summary of Medicaid Rates Audited
- EXHIBIT III - Operating Expense Disallowances/(Allowances)
- EXHIBIT IV - Property Expense Disallowances/(Allowances)
- EXHIBIT V - Per Diem Disallowances
- EXHIBIT VI - Correction of Patient Days
- EXHIBIT VII - Return on and Return of Real Property Equity Disallowances/(Allowances)
- EXHIBIT VIII - Return on Average Equity Disallowances/(Allowances)

CERTIFIED MAIL [REDACTED]
RETURN RECEIPT REQUESTED

**NEW YORK STATE
OFFICE OF THE MEDICAID INSPECTOR GENERAL
REMITTANCE ADVICE**

NAME AND ADDRESS OF AUDITEE

Queens Center for Rehabilitation
and Residential Healthcare
157-15 19th Avenue
Whitestone, New York 11357

NPI #: [REDACTED]

PROVIDER #: [REDACTED]

AUDIT #08-1979

AMOUNT DUE: \$790,573

AUDIT
TYPE

PROVIDER
 RATE
 PART B
 OTHER:

CHECKLIST

1. To ensure proper credit, please enclose this form with your check.
2. Make checks payable to: *New York State Department of Health*
3. Record the Audit Number on your check.
4. Mail check to:

[REDACTED]
New York State Department of Health
Medicaid Financial Management
GNARESP Corning Tower, Room 2739
File #08-1979
Albany, New York 12237-0048

5. If the provider number shown above is incorrect, please enter the correct number below.

CORRECT PROVIDER NUMBER

QUEENS CENTER FOR REHABILITATION AND RESIDENTIAL HEALTHCARE
AUDIT #08-1979
FACILITY DRAFT AUDIT REPORT COMMENTS AND OMIG RESPONSE

All OMIG adjustments were accepted by the Facility except for those shown below. The following details the disposition of final report adjustments after consideration of the Facility's draft audit report response comments. See Attachment B for adjustment changes included in the final audit report.

EXHIBIT III COMMENTS

Adjustment #2 – Disallowance of Expenses Not Related to the Base Period

Facility Comment

At exit, auditor agreed to provide further explanation. Date of invoice is out of the period but service is for the base period. Due to a net loss of approximately \$105,000, Bronx Commissary made an adjustment catch up charge in August 2005 to the 4 facilities allocated by bed amount. For Queens Center an adjustment journal entry moved its portion to correctly reflect the amount.

OMIG Response

The auditors provided a full explanation and complete documentation for all adjustments. Based on the additional information provided by the Facility after the exit conference for Bronx Commissary, the adjustment for \$31,680 (\$29,694 + 1,986) has been eliminated. The Facility did not provide any additional information or documentation regarding the remaining disallowances.

Disposition: The draft audit report adjustment has been reduced.

Adjustment #3b – Expenses Not Related to Patient Care

Facility Comments

Reason for disallowance: Auditor mentioned that a description of services is needed for [REDACTED] and [REDACTED]

During audit period the following consultants, primarily employed by related company, provided Queens Center residents with their expertise as follows:

- [REDACTED] — Assisted residents and families in obtaining medical coverage for the services provided at the facility. She works closely with HMO carriers to assure coverage, authorization and recertification. She also works along with the residents in obtaining Medicaid coverage by assisting in counseling and assisting with the application process and beyond.
- [REDACTED] — Assisted the social service staff in provided support to residents and their representatives during their stay at the facility and particularly assisting them with discharge planning assuring smooth transitioning back home or discharge to other medical facilities.

The operator made a decision to terminate employees who were high cost and expensive for the facility during the base period thereby achieving cost savings in the long run. The severance payment was minimal compared to the annual salary and long term result in the daily rate.

Need an explanation from the Auditor

OMIG Response

The Facility has not provided a contract or detailed billings for the services rendered by consultants [REDACTED]. These employees were full time employees on the related company's payroll and were paid on W-2's. The consulting charges totaling \$22,223 were supported by only hand written slips of paper indicating hours of service provided. In addition, the Facility has not provided Federal Form's 1099 to aid in establishing the legitimacy of the expense.

Severance pay for contracted employees (\$20,862 + 23,946) is not an allowable expense for the Facility. The Facility's contract with the staffing contractor indicates the following:

"CONTRACTOR'S performance of its obligations hereunder shall include all personnel necessary to perform the services being rendered hereunder and CLIENT shall not be required to hire employees to assist CONTRACTOR to perform its services, or to pay CONTRACTOR'S costs with respect to CONTRACTOR'S employees or others it may retain to perform the services hereunder, including wages, insurance (including worker's compensation and disability benefits coverage), and all necessary and appropriate withholdings, taxes and other payments required by law."

Based on the contract, the Facility does not have any obligation to pay the contractor's employees costs. Therefore these costs remain disallowed.

The Facility did not provide any additional information or documentation regarding the remaining disallowances.

Disposition: The draft audit report adjustment remains the same.

Adjustment #4 – Unsubstantiated Cost Disallowances

Facility Comments

The Facility provided additional documentation or brief comments regarding certain disallowances.

OMIG Response

The Facility provided substantiation for the following disallowed expenses. Based on the additional information provided, these adjustments were eliminated.

- Employee Benefits - \$7,917 (Cost Center #004)
- Bank Charges - \$5,034 (Cost Center #004)
- Employee Benefits - \$41,197 (Cost Center #005)
- Lawyer Fees - \$53,832 (Cost Center #005)
- Employee Benefits - \$20,084 (Cost Center #006)
- Employee Benefits - \$6,336 (Cost Center #011)
- Medical Director - \$134,946 (Cost Center #017)

The Facility did not adequately substantiate the following expenses:

- All Scripts - \$525 (Cost Center #004)
- Bank Charges - \$1,537 (Cost Center #004)
- [REDACTED] - \$20,000 (Cost Center #004)
- Lawyer Fees - \$1,000 (Cost Center #005)
- [REDACTED] - \$1,500 (Cost Center #005)
- [REDACTED] - \$6,000 (Cost Center #005)

Disposition: The draft audit report adjustment has been reduced.

Adjustment #5 – Unallowable Medical Director Office and Patient Food Expenses

Facility Comment

Reason for Disallowance: Payments made well beyond audit period.

Litigation and settlement correspondence attached for vendors.

- Care Tech
- Essen Medical

OMIG Response

Care Tech charges of \$91,701 were not paid until May 24, 2010. This is not an allowable base period expense.

Essen Medical charges of \$33,429 were not paid until October 13, 2010. This is not an allowable base period expense.

Disposition: The draft audit report adjustment remains the same.

EXHIBIT IV COMMENTS

Adjustment #4a – Movable Equipment Depreciation Adjustments

Facility Comment

Reason for disallowance: Auditor claims depreciation was overstated.

As per our conversation at the exit conference with the auditor and supervisor it has been agreed that the new operator is entitled to be reimbursed entirely for the equipment it purchased over the remaining useful lives that the new operator determined.

This was disputed because OMIG's restating the depreciation based on the prior operators depreciation schedule is incorrect. The new operator made an assessment on the useful life of the equipment it purchased from the prior operator.

As a matter of fact a significant portion of the equipment (kitchen and dietary) has been totally replaced by the end of the audit period.

OMIG Response

Based on the Facility's response and documentation included, the adjustment related to overstated depreciation of \$74,714 for the rate period June 6, 2004 through December 31, 2006 and \$17,900 for rate year 2007 have been eliminated.

The Facility did not provide any additional information or documentation regarding the remaining disallowances.

Disposition: The draft audit report adjustment has been reduced.

Adjustment #4d – Movable Equipment Depreciation Adjustments

Facility Comment

Reason for disallowance: Incorrectly capitalized operating costs move to Indirect Cost.

OMIG Response

The incorrectly capitalized expenses were incurred subsequent to the operating base period. Reclassification of the expense is not required as it would have no impact on the Facility's Medicaid rates.

Disposition: The draft audit report adjustment remains the same.

Adjustment #5a – Movable Equipment Rental Disallowances

OMIG Response

Based on the Facility's response and documentation included for Rent D and Rent I, the adjustments have been eliminated.

Disposition: The draft audit report adjustment has been reduced.

Adjustment #5b – Movable Equipment Rental Disallowances

Facility Comment

Auditor was to send the backup for the 2007 Exhibit 5, the file sent was corrupt.

OMIG Response

The auditors provided a full explanation and complete documentation for all adjustments. No additional documentation was received from the Facility to substantiate the expenses disallowed.

Disposition: The draft audit report adjustment remains the same.

Adjustment #5c – Movable Equipment Rental Disallowances

Facility Comment

Move to Direct.

Auditor was to send the backup for the 2007 Exhibit 5, the file sent was corrupt.

OMIG Response

Based on the Facility's response, the supplies included in Rent C and disallowed as a property cost, have been reclassified to direct costs. See newly added operating adjustment #8a.

The auditors provided a full explanation and complete documentation for all adjustments. No additional documentation was received from the Facility to substantiate the expenses disallowed in Rent E. The supplies included as Rent E were purchased subsequent to the operating base period. Reclassification of the expense is not required as it would have no impact on the Facility's Medicaid rates.

Disposition: The draft audit report adjustment has been revised.

Adjustment #5d – Movable Equipment Rental Disallowances

Facility Comment

Move to Direct.

Auditor was to send the backup for the 2007 Exhibit 5, the file sent was corrupt.

OMIG Response

Based on the Facility's response, the maintenance agreements included in Rent C and E and disallowed as a property cost have been reclassified to direct costs. See newly added operating adjustment #8b.

The auditors provided a full explanation and complete documentation for all adjustments. No additional documentation was received from the Facility to substantiate the expenses disallowed in Rent B. The maintenance agreement expense included in Rent B was incurred subsequent to the operating base period. Reclassification of the expense is not required as it would have no impact on the Facility's Medicaid rates.

Disposition: The draft audit report adjustment has been revised.

Adjustment #5e – Movable Equipment Rental Disallowances

OMIG Response

Based on the Facility's response and documentation included, the adjustment has been eliminated.

Adjustment #5f – Movable Equipment Rental Disallowances

Facility Comment

Move to Indirect.

OMIG Response

Based on the Facility's response, the telephone equipment rental expense included in Rent F and disallowed as a property cost has been reclassified to indirect costs. See newly added operating adjustment #8b.

The auditors provided a full explanation and complete documentation for all adjustments. No additional documentation was received from the Facility to substantiate the expenses disallowed in Rent A. The telephone equipment included as Rent A was purchased subsequent to the operating base period. Reclassification of the expense is not required as it would have no impact on the Facility's Medicaid rates.

Disposition: The draft audit report adjustment has been revised.

Adjustment #5g – Movable Equipment Rental Disallowances

Facility Comment

Auditor was to send the backup for the 2007 Exhibit 5, the file sent was corrupt.

OMIG Response

The auditors provided a full explanation and complete documentation for all adjustments. No additional documentation was received from the Facility to substantiate the expenses disallowed in Rent B.

Disposition: The draft audit report adjustment remains the same.

Adjustment #8 – Sales Tax Disallowances

Facility Comment

Needs to be moved to each cost center.

OMIG Response

The Facility calculated sales tax on operating expenses that were not billed for and reported the calculated amount in property costs. This resulted in a reduction of operating costs. OMIG reversed this adjustment for all allowable expenses. See the newly added operating adjustment #7.

Disposition: The draft audit report adjustment has been revised.

EXHIBIT V COMMENTS

Per Diem Adjustment – Health Personnel Recruitment and Retention (HRR)

OMIG Response

Based on the Facility's response and documentation included, the adjustment has been eliminated.

QUEENS CENTER FOR REHABILITATION AND RESIDENTIAL HEALTHCARE - AUDIT #08-1979SUMMARY OF CHANGES FROM DRAFT REPORT TO FINAL REPORT

<u>EXHIBIT III - OPERATING EXPENSE</u> <u>DISALLOWANCES/(ALLOWANCES)</u>	<u>Rate</u> <u>Period</u>	<u>Draft</u> <u>Disallowance</u> <u>(Allowance)</u>	<u>Change</u>	<u>Final</u> <u>Disallowance</u> <u>(Allowance)</u>
1. CAFETERIA EXPENSE ALLOWANCES	06/04/04-12/31/07	\$ (101,828)	-	\$ (101,828)
2. DISALLOWANCE OF EXPENSES NOT RELATED TO THE BASE PERIOD	06/04/04-12/31/07	262	-	262
	06/04/04-12/31/07	5,599	-	5,599
	06/04/04-12/31/07	1,641	-	1,641
	06/04/04-12/31/07	1,318	-	1,318
	06/04/04-12/31/07	3,228	-	3,228
	06/04/04-12/31/07	37,190	\$ (31,680)	5,510
3a. EXPENSES NOT RELATED TO PATIENT CARE	06/04/04-12/31/07	23,119	-	23,119
3b. EXPENSES NOT RELATED TO PATIENT CARE	06/04/04-12/31/07	26,379	-	26,379
	06/04/04-12/31/07	199,500	-	199,500
	06/04/04-12/31/07	23,946	-	23,946
	06/04/04-12/31/07	2,939	-	2,939
4. UNSUBSTANTIATED COST DISALLOWANCES	06/04/04-12/31/07	35,013	(12,951)	22,062
	06/04/04-12/31/07	109,021	(95,029)	13,992
	06/04/04-12/31/07	20,084	(20,084)	-
	06/04/04-12/31/07	6,336	(6,336)	-
	06/04/04-12/31/07	134,946	(134,946)	-
5. UNALLOWABLE MEDICAL DIRECTORS OFFICE AND PATIENT FOOD EXPENSES	06/04/04-12/31/07	91,701	-	91,701
	06/04/04-12/31/07	33,429	-	33,429
6. UNALLOWABLE LABORATORY AND MEDICAL STAFF SERVICES EXPENSES	06/04/04-12/31/07	941	-	941
	06/04/04-12/31/07	19,524	-	19,524
7. SALES TAX EXPENSE ALLOWANCE	06/04/04-12/31/07	-	(2,088)	(2,088)
	06/04/04-12/31/07	-	(9,412)	(9,412)
	06/04/04-12/31/07	-	(1,974)	(1,974)
	06/04/04-12/31/07	-	(1,292)	(1,292)
	06/04/04-12/31/07	-	(618)	(618)
	06/04/04-12/31/07	-	(918)	(918)
8a. RECLASSIFICATION OF IMPROPERLY CATEGORIZED EXPENSES	06/04/04-12/31/07	-	(23,029)	(23,029)
8b. RECLASSIFICATION OF IMPROPERLY CATEGORIZED EXPENSES	06/04/04-12/31/07	-	(918)	(918)
	06/04/04-12/31/07	-	(2,433)	(2,433)

QUEENS CENTER FOR REHABILITATION AND RESIDENTIAL HEALTHCARE - AUDIT #08-1979
SUMMARY OF CHANGES FROM DRAFT REPORT TO FINAL REPORT

<u>EXHIBIT IV - PROPERTY EXPENSE</u> <u>DISALLOWANCES/(ALLOWANCES)</u>	<u>Rate</u> <u>Period</u>	<u>Draft</u> <u>Disallowance</u> <u>(Allowance)</u>	<u>Change</u>	<u>Final</u> <u>Disallowance</u> <u>(Allowance)</u>
1. RETURN ON AND RETURN OF EQUITY DISALLOWANCES				
	06/04/04-12/31/04	44,922	-	44,922
	2005	43,005	-	43,005
	01/01/06-03/31/06	39,575	-	39,575
	04/01/06-12/31/06	39,575	-	39,575
	2007	41,547	-	41,547
2. RETURN ON AVERAGE EQUITY DISALLOWANCES				
	06/04/04-12/31/04	15,902	-	15,902
	2005	42,197	-	42,197
	01/01/06-03/31/06	97,907	-	97,907
	04/01/06-12/31/06	97,907	-	97,907
3. REAL ESTATE TAX ALLOWANCE				
	2007	(6,872)	-	(6,872)
4a. MOVABLE EQUIPMENT DEPRECIATION ADJUSTMENTS				
	06/04/04-12/31/04	95,261	(74,714)	20,547
	2005	95,261	(74,714)	20,547
	01/01/06-03/31/06	95,261	(74,714)	20,547
	04/01/06-12/31/06	95,261	(74,714)	20,547
	2007	39,628	(17,900)	21,728
4b. MOVABLE EQUIPMENT DEPRECIATION ADJUSTMENTS				
	06/04/04-12/31/04	719	-	719
	2005	719	-	719
	01/01/06-03/31/06	719	-	719
	04/01/06-12/31/06	719	-	719
	2007	719	-	719
4c. MOVABLE EQUIPMENT DEPRECIATION ADJUSTMENTS				
	06/04/04-12/31/04	(8,303)	-	(8,303)
	2005	(8,303)	-	(8,303)
	01/01/06-03/31/06	(8,303)	-	(8,303)
	04/01/06-12/31/06	(8,303)	-	(8,303)
	2007	(16,942)	-	(16,942)
4d. MOVABLE EQUIPMENT DEPRECIATION ADJUSTMENTS				
	2007	745	-	745
4e. MOVABLE EQUIPMENT DEPRECIATION ADJUSTMENTS				
	2007	641	-	641
4f. MOVABLE EQUIPMENT DEPRECIATION ADJUSTMENTS				
	2005	20	-	20
	2007	81	-	81
5a. RENTAL EQUIPMENT DISALLOWANCES				
	06/04/04-12/31/04	11,516	(9,488)	2,028
	2005	11,516	(9,488)	2,028
	01/01/06-03/31/06	11,516	(9,488)	2,028
	04/01/06-12/31/06	11,516	(9,488)	2,028
	2007	18,292	(18,292)	-

QUEENS CENTER FOR REHABILITATION AND RESIDENTIAL HEALTHCARE - AUDIT #08-1979
SUMMARY OF CHANGES FROM DRAFT REPORT TO FINAL REPORT

<u>EXHIBIT IV - PROPERTY EXPENSE</u> <u>DISALLOWANCES/(ALLOWANCES) (CONT.)</u>	<u>Rate</u> <u>Period</u>	<u>Draft</u> <u>Disallowance</u> <u>(Allowance)</u>	<u>Change</u>	<u>Final</u> <u>Disallowance</u> <u>(Allowance)</u>
5b. RENTAL EQUIPMENT DISALLOWANCES	06/04/04-12/31/04	3,374	-	3,374
	2005	3,374	-	3,374
	01/01/06-03/31/06	3,374	-	3,374
	04/01/06-12/31/06	3,374	-	3,374
	2007	8,738	-	8,738
5c. RENTAL EQUIPMENT DISALLOWANCES	06/04/04-12/31/04	23,029	-	23,029
	2005	23,029	-	23,029
	01/01/06-03/31/06	23,029	-	23,029
	04/01/06-12/31/06	23,029	-	23,029
	2007	964	-	964
5d. RENTAL EQUIPMENT DISALLOWANCES	06/04/04-12/31/04	918	-	918
	2005	918	-	918
	01/01/06-03/31/06	918	-	918
	04/01/06-12/31/06	918	-	918
	2007	539	-	539
5e. RENTAL EQUIPMENT DISALLOWANCES	06/04/04-12/31/04	614	(614)	-
	2005	614	(614)	-
	01/01/06-03/31/06	614	(614)	-
	04/01/06-12/31/06	614	(614)	-
	2007	2,763	(2,763)	-
5f. RENTAL EQUIPMENT DISALLOWANCES	06/04/04-12/31/04	2,433	-	2,433
	2005	2,433	-	2,433
	01/01/06-03/31/06	2,433	-	2,433
	04/01/06-12/31/06	2,433	-	2,433
	2007	8,110	-	8,110
5g. RENTAL EQUIPMENT DISALLOWANCES	06/04/04-12/31/04	19,760	-	19,760
	2005	19,760	-	19,760
	01/01/06-03/31/06	19,760	-	19,760
	04/01/06-12/31/06	19,760	-	19,760
	2007	26,000	-	26,000
5h. RENTAL EQUIPMENT DISALLOWANCES	2007	81	-	81
6. AUTO INSURANCE EXPENSE DISALLOWANCES	06/04/04-12/31/04	962	-	962
	2005	962	-	962
	01/01/06-03/31/06	962	-	962
	04/01/06-12/31/06	962	-	962
	2007	2,395	-	2,395

QUEENS CENTER FOR REHABILITATION AND RESIDENTIAL HEALTHCARE - AUDIT #08-1979
SUMMARY OF CHANGES FROM DRAFT REPORT TO FINAL REPORT

<u>EXHIBIT IV - PROPERTY EXPENSE</u> <u>DISALLOWANCES/(ALLOWANCES) (CONT.)</u>	<u>Rate</u> <u>Period</u>	<u>Draft</u> <u>Disallowance</u> <u>(Allowance)</u>	<u>Change</u>	<u>Final</u> <u>Disallowance</u> <u>(Allowance)</u>
7. ORGANIZATIONS/START-UP COST DISALLOWANCES				
	06/04/04-12/31/04	964	-	964
	2005	964	-	964
	01/01/06-03/31/06	964	-	964
	04/01/06-12/31/06	964	-	964
8. SALES TAX DISALLOWANCES				
	06/04/04-12/31/04	17,775	-	17,775
	2005	17,775	-	17,775
	01/01/06-03/31/06	17,775	-	17,775
	04/01/06-12/31/06	17,775	-	17,775
	2007	2,809	-	2,809
9. WORKING CAPITAL INTEREST EXPENSE DISALLOWANCES				
	06/04/04-12/31/04	39,312	-	39,312
	2005	39,312	-	39,312
	01/01/06-03/31/06	39,312	-	39,312
<u>EXHIBIT V - PER DIEM ADJUSTMENT</u>				
HEALTH PERSONNEL RECRUITMENT AND RETENTION	07/07/07-12/31/07	1.46	(1.46)	-

QUEENS CENTER FOR REHABILITATION AND RESIDENTIAL HEALTHCARE - AUDIT #08-1979
RATE PERIODS JUNE 4, 2004 THROUGH DECEMBER 31, 2007
SUMMARY OF PER DIEM IMPACT AND MEDICAID OVERPAYMENT

<u>RATE PERIOD</u>	<u>ISSUED PART B & D NON-ELIGIBLE RATES*</u>	<u>FINAL PART B & D NON-ELIGIBLE RATES</u>	<u>RATE DECREASE (INCREASE)</u>	<u>MEDICAID DAYS</u>	<u>MEDICAID OVERPAYMENT</u>
06/04/04 - 07/31/04	\$231.27	\$226.76	\$4.51	5,891	\$ 26,568
08/01/04 - 09/30/04	236.20	231.69	4.51	6,651	29,996
10/01/04 - 10/31/04	236.20	231.69	4.51	3,454	15,578
11/01/04 - 12/31/04	236.44	231.93	4.51	7,042	31,759
01/01/05 - 01/31/05	244.22	238.13	6.09	3,521	21,443
02/01/05 - 04/30/05	249.10	243.01	6.09	9,230	56,211
05/01/05 - 06/30/05	243.34	237.25	6.09	5,687	34,634
07/01/05 - 07/31/05	243.34	237.25	6.09	2,913	17,740
08/01/05 - 10/31/05	247.89	241.80	6.09	9,854	60,011
11/01/05 - 12/31/05	238.96	232.87	6.09	6,725	40,955
01/01/06 - 01/31/06	243.62	236.32	7.30	3,169	23,134
02/01/06 - 03/31/06	247.79	240.49	7.30	6,315	46,100
04/01/06 - 04/30/06	246.60	239.93	6.67	3,295	21,978
05/01/06 - 07/31/06	240.22	233.56	6.66	10,045	66,900
08/01/06 - 10/31/06	242.56	235.90	6.66	9,938	66,187
11/01/06 - 12/31/06	248.53	241.87	6.66	6,316	42,065
01/01/07 - 03/31/07	258.47	253.69	4.78	9,585	45,816
04/01/07 - 06/30/07	257.05	252.30	4.75	9,889	46,973
07/01/07 - 08/31/07	258.51	253.76	4.75	7,292	34,637
09/01/07 - 12/31/07	258.51	253.76	4.75	13,029	<u>61,888</u>
TOTAL MEDICAID OVERPAYMENT					<u>\$ 790,573</u>

* Any differences between these rates and the rates listed in Exhibit II of this report represent rate changes made subsequent to OMIG's audit. These changes remain open to future audit by the OMIG. For the purpose of this Exhibit, the Medicare Part B and D rates are not shown. The rate decrease/(increase) for those rates is the same as shown for the Medicare Part B and D non-eligible rates above.

QUEENS CENTER FOR REHABILITATION AND RESIDENTIAL HEALTHCARE - AUDIT #08-1979
RATE PERIODS JUNE 4, 2004 THROUGH DECEMBER 31, 2007
SUMMARY OF MEDICAID RATES AUDITED

The Facility's Medicaid utilization was approximately 63 percent for the period under audit and the Medicaid per diem rates audited are shown below. Any differences between these rates and the "Issued Rates" listed in Exhibit I of this report represent rate changes made subsequent to our audit. These changes remain open to future audit by the OMIG.

<u>RATE PERIOD</u>	<u>Issued Medicare Part B & D Non-Eligible Rates *</u>
06/04/04 - 07/31/04	\$ 231.27
08/01/04 - 09/30/04	236.20
10/01/04 - 10/31/04	236.20
11/01/04 - 12/31/04	236.44
01/01/05 - 01/31/05	244.22
02/01/05 - 04/30/05	249.10
05/01/05 - 06/30/05	243.34
07/01/05 - 07/31/05	243.34
08/01/05 - 10/31/05	247.89
11/01/05 - 12/31/05	238.96
01/01/06 - 01/31/06	243.62
02/01/06 - 03/31/06	247.79
04/01/06 - 04/30/06	246.60
05/01/06 - 07/31/06	240.22
08/01/06 - 10/31/06	242.56
11/01/06 - 12/31/06	248.53
01/01/07 - 03/31/07	258.47
04/01/07 - 06/30/07	257.05
07/01/07 - 08/31/07	258.51
09/01/07 - 12/31/07	258.51

* The Medicare Part B and D rates are not shown for the purpose of this Exhibit. The Medicare Part B and D offsets were not within the scope of this audit and may be examined as part of a future audit.

QUEENS CENTER FOR REHABILITATION AND RESIDENTIAL HEALTHCARE - AUDIT #08-1979
RATE PERIODS JUNE 4, 2004 THROUGH DECEMBER 31, 2007
OPERATING EXPENSE DISALLOWANCES/(ALLOWANCES)

	<u>DESCRIPTION</u>	<u>COST CENTER</u>	<u>OPERATING EXPENSE COMPONENT</u>		
			<u>DIRECT</u>	<u>INDIRECT</u>	<u>NON-COMP.</u>
Operating Expense Allowed per HE-12B			\$ 9,337,408	\$ 4,214,579	\$ 687,482
Less Disallowances/(Allowances):					
1. CAFETERIA EXPENSE ALLOWANCES					
The expense of cafeteria meals served to employees should be allowed as employee benefits allocated to various cost centers based on reported full time equivalents (FTEs). The Bureau of Long Term Care Reimbursement (BLTCR) disallowed cafeteria expense from indirect costs. However, the disallowed expense was not allocated to various cost centers based on FTEs. Consequently, allowances were necessary to correct the error.					
Regulations: 10 NYCRR Sections 86-2.4 & 2.17(d), 455.12, 458.2, and 458.3					
	Fiscal	004		(14,026)	
	Admin. Svcs.	005		(3,421)	
	Plant Oper.	006		(3,725)	
	Housekeeping	010		(29,724)	
	Patient Food	011		(40,822)	
	Cafeteria	012		(4,979)	
	Medical Records	019		(1,216)	
	Utilization Review	020			(3,915)
2. DISALLOWANCE OF EXPENSES NOT RELATED TO THE BASE PERIOD					
Expenditures are to be recorded in the period in which they are incurred. Reported base year expenses included expenditures pertaining to prior and later periods. Consequently, disallowances were necessary.					
Regulations: 10 NYCRR Sections 86-2.4 & 2.17(a), PRM-1 Sections 2300, 2302.1, & 2304					
	Fiscal	004		262	
	Admin. Svcs.	005		5,599	
	Plant Oper.	006		1,641	
	Laundry	009		1,318	
	Housekeeping	010		3,228	
	Patient Food	011		5,510	
3. EXPENSES NOT RELATED TO PATIENT CARE					
a) Electric and gas expenses included charges for security deposits for services rendered or to be rendered and late payment fees. The security deposits and late payment fees were in excess of the expense of the actual service provided. Since these costs were not for the actual services provided, disallowances were necessary.					
Regulations: 10 NYCRR Sections 86-2.17(a) & (d)					
	Utilities	006			23,119
b) Costs that are not appropriate or necessary in the development and maintenance of patient care facilities and activities are not related to patient care. Only costs that are properly chargeable to necessary patient care are allowable. Reported costs included costs that were not necessary or required for proper maintenance of patient care. Since the Facility did not substantiate that the expenses were related to patient care, these expenses were disallowed.					
Regulations: 10 NYCRR Sections 86-2.17(a) & (d), PRM-1 Sections 2300 & 2304					
	Fiscal	004		26,379	
	Admin. Svcs.	005		199,500	
	Housekeeping	010		23,946	
	Patient Food	011		2,939	
4. UNSUBSTANTIATED COST DISALLOWANCES					
Providers receiving payments on the basis of reimbursable costs are required to provide adequate cost data based on financial and statistical records that can be verified on audit. Cost data must be current, accurate, and in sufficient detail. Audited costs varied from the amount reported by the Facility. The Facility did not provide adequate documentation to substantiate reported expenses. Consequently, the unsubstantiated expenses were disallowed.					
Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Sections 2300 & 2304					
	Fiscal	004		22,062	
	Admin. Svcs.	005		13,992	

QUEENS CENTER FOR REHABILITATION AND RESIDENTIAL HEALTHCARE - AUDIT #08-1979
RATE PERIODS JUNE 4, 2004 THROUGH DECEMBER 31, 2007
OPERATING EXPENSE DISALLOWANCES/(ALLOWANCES)

	DESCRIPTION	COST CENTER	OPERATING EXPENSE COMPONENT		
			DIRECT	INDIRECT	NON-COMP.
5. UNALLOWABLE MEDICAL DIRECTOR OFFICE AND PATIENT FOOD EXPENSES					
A portion of the reported medical director office and patient food expense was not paid within one year of the end of the cost reporting period as required by regulation. The amount that was not paid within the year was disallowed. Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Section 2305					
	Patient Food	011		91,701	
	Med. Director	017			33,429
6. UNALLOWABLE LABORATORY AND MEDICAL STAFF SERVICES EXPENSES					
(a) Costs not reasonably related to efficient production of services because of the nature or amount of expenses are not allowable. The Facility reported medical staff services on the RHCF-4 Report. Since these ancillaries were not included in the Facility's Medicaid rate and do not apply to Medicaid patients, these expenses were disallowed. Regulations: 10 NYCRR Sections 86-2.17(a) & (d)					
	Med. Staff	044			941
(b) Effective April 1, 2001, the Centers for Medicare and Medicaid Services (CMS) policy for consolidated billing required that nursing facilities bill and receive reimbursement under Medicare Part A for the radiology and laboratory "technical component" portion of charges. The actual radiology and laboratory service provider then bill the nursing facility to receive its reimbursement of the technical component. Consequently, inclusion of any such "expenses" in the Medicaid rate is inappropriate and would duplicate reimbursement. The "expense" is merely a pass through of income received by the nursing facility to the service provider. Additionally, the above transactions do not pertain to Medicaid patients in any way. Since the "expense" does not pertain to Medicaid patients, it is not reimbursable under the Medicaid program. Regulations: 10 NYCRR Section 86-2.17(d), HCFA Pub. 60B, Transmittal B-00-67 dated Nov. 27, 2000, Subject: Consolidated Billings for SNF Residents					
	Lab	031			19,524
7. SALES TAX EXPENSE ALLOWANCES					
The Facility calculated sales tax on the General Ledger (G/L) account total of operating costs and reported that amount as a property expense. However, the G/L total included expenses not subject to sales tax. Elimination of sales tax from the non-taxable expenses resulted in a reduction of operating costs. On audit, expenses not subject to sales tax were eliminated from the sales tax calculation. The sales tax which was erroneously removed from the allowable expenses were added back to properly reflect the actual operating costs. See corresponding adjustment # 8 in Exhibit IV. Regulation: 10 NYCRR Section 86-2.17(a)					
	Fiscal	004		(2,088)	
	Laundry & Linen	009		(9,412)	
	Patient Food	011		(1,974)	
	Activities	014	(1,292)		
	Central Supply	043	(618)		
	Utilities	006			(918)
8. RECLASSIFICATION OF IMPROPERLY CATEGORIZED EXPENSES					
a) The facility included oxygen expense as well as the purchase of medical supplies in movable equipment rental expenses. Oxygen and medical supplies are considered an operating expenditure. A reclassification was necessary to transfer the oxygen and supply expenses from property costs to operating costs. See corresponding adjustment # 5(c) in Exhibit IV. Regulations: 10NYCRR Sections 455.35 & 86-2.10(g)					
	Central Supply	043	(23,029)		

QUEENS CENTER FOR REHABILITATION AND RESIDENTIAL HEALTHCARE - AUDIT #08-1979
RATE PERIODS JUNE 4, 2004 THROUGH DECEMBER 31, 2007
OPERATING EXPENSE DISALLOWANCES/(ALLOWANCES)

	<u>DESCRIPTION</u>	<u>COST CENTER</u>	<u>OPERATING EXPENSE COMPONENT</u>		
			<u>DIRECT</u>	<u>INDIRECT</u>	<u>NON-COMP.</u>
8. RECLASSIFICATION OF IMPROPERLY CATEGORIZED EXPENSES (CONT.)					
b) The facility included expenses associated with maintenance agreements and telephone equipment costs in movable equipment rental expenses. Costs associated with maintenance agreements and telephone equipment are considered operating expenses and should not be included in the capital component of the rate. Consequently, a reclassification was necessary to transfer the expense from the property component to the operating component of the rate. See corresponding adjustment # 5(d) and #5(f) in Exhibit IV. Regulations: 10 NYCRR Sections 86-2.10(d) & (g) & 86-2.17(d)	Fiscal	004	-	(918)	-
	Admin. Svcs.	005		(2,433)	
Total Disallowances/(Allowances)			<u>\$ (24,939)</u>	<u>\$ 283,339</u>	<u>\$ 72,180</u>
AUDITED OPERATING EXPENSE BY COMPONENT			<u><u>\$ 9,362,347</u></u>	<u><u>\$ 3,931,240</u></u>	<u><u>\$ 615,302</u></u>

QUEENS CENTER FOR REHABILITATION AND RESIDENTIAL HEALTHCARE - AUDIT #08-1979
RATE PERIODS JUNE 4, 2004 THROUGH DECEMBER 31, 2007
PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

	DESCRIPTION	COST CTR.	RATE PERIODS						
			06/04/04 - 12/31/04	2005	01/01/06 - 03/31/06	04/01/06 - 12/31/06	2007		
Property Expense Allowed per HE-12B			\$ 1,300,109	\$ 1,297,096	\$ 993,402	\$ 954,090	\$ 1,033,837		
Less Disallowances/(Allowances):									
1. RETURN ON AND RETURN OF EQUITY DISALLOWANCES									
The Facility received a separate return on and return of equity in lieu of rent payments to a related company by the previous owner. This rental space was not included in the sale of the Facility and no longer used by the Facility. Therefore, costs associated with this rental space were eliminated from the Facility costs resulting in disallowances. (See Exhibit VII) Regulation: 10 NYCRR Section 86-2.17(a)			Ret.on Eq.	006	28,744	26,827	23,397	23,397	25,369
			Ret. of Eq.	006	16,178	16,178	16,178	16,178	16,178
2. RETURN ON AVERAGE EQUITY DISALLOWANCES									
Based on the average equity regulation below, a proprietary residential health care facility is entitled to a reasonable return on average equity for equity associated with necessary and proper patient care activities. The returns in the 2004, 2005, and 2006 promulgated rates were based on average equity that included an amount for goodwill and intangible assets. The Commissioner has determined that goodwill and intangible assets are not reimbursable for Medicaid. Consequently, the average equity calculation was recomputed based on the elimination of the goodwill and intangible assets, which resulted in disallowances to the return on average equity. (See Exhibit VIII) Regulations: 10 NYCRR Sections 86-2.28 & 2.17(d)			Ret. on Av. Eq.	002	15,902	42,197	97,907	97,907	
3. REAL ESTATE TAX ALLOWANCE									
Audited real estate tax expense varied from the expense allowed in the promulgated rates resulting in an allowance. Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Sections 2102.2 2300 & 2304			Real. Est. Tax	006					(6,872)
4. MOVABLE EQUIPMENT DEPRECIATION ADJUSTMENTS									
a) Providers receiving payment based on reimbursable costs must provide adequate cost data based on financial and statistical records that can be verified on audit. Depreciation reported for the property bought from the previous owner included depreciation for vehicles that were not part of the sale. In addition, the Facility could not provide supporting documentation for some of the cost year movable equipment additions. Therefore, depreciation expenses for the vehicles that were not included as part of the sale and depreciation expenses associated with the undocumented equipment were disallowed. Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Sections 2300 & 2304			ME Depr.	002	20,547	20,547	20,547	20,547	21,728
b) The Bureau of Long Term Care Reimbursement (BLTCR) has determined the nature of telephone expense to be an operating expense. Since the expense is included in the formula to determine the base, mean, and ceiling prices used to establish the indirect expense corridor, the reimbursement of telephone depreciation expense in the property component amounts to duplicate reimbursement. Consequently, disallowances were necessary. Regulation: 10 NYCRR Section 86-2.17(d)			ME Depr.	002	719	719	719	719	719

QUEENS CENTER FOR REHABILITATION AND RESIDENTIAL HEALTHCARE - AUDIT #08-1979
RATE PERIODS JUNE 4, 2004 THROUGH DECEMBER 31, 2007
PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

	DESCRIPTION	COST CTR.	RATE PERIODS				
			06/04/04 - 12/31/04	2005	01/01/06 - 03/31/06	04/01/06 - 12/31/06	2007
4. MOVABLE EQUIPMENT DEPRECIATION ADJUSTMENTS (CONT.)							
c) The BLTCR disallowed depreciation expense for capitalized leases in the promulgated rates. However, the capitalized leases depreciation expense was not included in the depreciation expense reported by the Facility. Consequently, allowances were necessary. Regulation: 10 NYCRR Section 86-2.22	ME Depr.	002	(8,303)	(8,303)	(8,303)	(8,303)	(16,942)
d) The Facility incorrectly capitalized costs that should have been expensed as operating costs. These expenditures should have been expensed in accordance with generally accepted accounting principles and the guidelines and definitions included in the RHC Accounting and Reporting Manual. Accordingly, the depreciation expense applicable to these costs was disallowed. Regulations: 10 NYCRR Sections 451.168 & 86-2.4	ME Depr.	002					745
e) In accordance with the BLTCR methodology, depreciation on capitalized lease equipment is not a reimbursable cost. In lieu of depreciation and interest on capitalized assets, the provider is reimbursed actual lease payments. Lease payments were properly allowed in the promulgated rates. Consequently, it was necessary to disallow movable equipment depreciation applicable to the capitalized lease. Regulations: 10 NYCRR Sections 86-2.17(d) & 86-2.22	ME Depr.	002					641
f) The audit of movable equipment depreciation in the promulgated rates disclosed that the expense varied from the audited movable equipment depreciation. Consequently, disallowances were necessary. Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Section 2102.3	ME Depr.	002		20			81
5. MOVABLE EQUIPMENT RENTAL DISALLOWANCES							
a) Costs not related to patient care are costs that are not appropriate or necessary and proper in developing and maintaining the operation of patient care facilities and activities. Only costs properly chargeable to necessary patient care are allowable. Reported rental payments included lease payments for vehicles not used by the Facility's personnel. These expenses are not related to the Facility's patient care and should not be included in the rate computation. Therefore, these vehicle leases and rental payments were disallowed from property expense. Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Section 2102.3	Rent A	006	2,028	2,028	2,028	2,028	
b) The reported rental expenses included vehicles leased by the related company for which documentation to fully establish patient care related use for the vehicles was not maintained by the Facility. Consequently, these costs were disallowed. Regulations: 10 NYCRR Sections 86-2.17(a) & (d), PRM-1 Section 2105.9	Rent B Rent C	006 006	3,374	3,374	3,374	3,374	8,738
c) Rental expenses associated with supplies are considered operating expenses and should not be included in the property component of the rate. Additionally, reported rental expenses for oxygen concentrators included amounts for oxygen. Oxygen is also considered an operating expenditure. A reclassification was necessary to transfer the oxygen and supply expenses from the property costs to operating costs. See corresponding adjustment #8(a) in Exhibit III. Regulations: 10 NYCRR Sections 86-2.17(a)&(d), & 86-2.10(g), PRM-1 Section 2102.2	Rent C Rent E	043 004	23,029	23,029	23,029	23,029	964

QUEENS CENTER FOR REHABILITATION AND RESIDENTIAL HEALTHCARE - AUDIT #08-1979
RATE PERIODS JUNE 4, 2004 THROUGH DECEMBER 31, 2007
PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

	DESCRIPTION	COST CTR.	RATE PERIODS				
			06/04/04 - 12/31/04	2005	01/01/06 - 03/31/06	04/01/06 - 12/31/06	2007
5. MOVABLE EQUIPMENT RENTAL DISALLOWANCES (CONT.)							
d) Rental expenses associated with maintenance agreements are considered operating expenses and should not be included in the capital component of the rate. Consequently, a reclassification was necessary to transfer the expense from the property component to the operating component of the rate. See corresponding adjustment #8(b) in Exhibit III. Regulations: 10 NYCRR Sections 86-2.17(a),(d) & 86-2.10(g), PRM-1 Section 2102.2	Rent C	043	271	271	271	271	
	Rent E	004	647	647	647	647	
	Rent B	004					508
	Rent E	004					31
e) Based on the Facility's response and documentation included, the adjustment has been eliminated.	Rent F	002					
	Rent A	002					
f) The BLTCR has determined the nature of telephone expense to be an operating expense. Since the expense is included in the formula to determine the base, mean, and ceiling prices used to establish the indirect expense corridor, the reimbursement of telephone equipment rental expense in the property component amounts to duplicate reimbursement. Consequently, a reclassification was necessary to transfer the expense from the property component to the operating component of the rate. See corresponding adjustment #8(b) in Exhibit III. Regulation: 10 NYCRR Section 86-2.17(d)	Rent F	002	2,433	2,433	2,433	2,433	
	Rent A	002					8,110
g) Computer and copier rental expenses reported by the Facility also included allocated rental expenses of the Related Company. The Related Company's rental expenses were also reported on the RHCF-4, Related Company's Schedule 9. BLTCR allowed Related Company's rental expenses reported on the Schedule 9 in addition to the expenses reported by the Facility. This resulted in duplicate reimbursement. Disallowances were necessary to eliminate this duplicate reimbursement. Regulations: 10 NYCRR Sections 86-2.17(a) & (d)	Rent E	004	19,760	19,760	19,760	19,760	
	Rent B	004					26,000
h) Facilities receiving payment on the basis of reimbursable costs must provide adequate cost data based on financial and statistical records that can be verified on audit. In addition, the cost data is required to be current, accurate, and in sufficient detail. Audited equipment rental expenses varied from the expenses allowed in the promulgated rates resulting in a disallowance. Regulations: 10 NYCRR Section 86-2.17(a) & 86-2.10(g), PRM-1 Sections 2300 & 2304	Rent C	006					81
6. AUTO INSURANCE EXPENSE DISALLOWANCES							
Costs that are not appropriate or necessary in the development and maintenance of patient care facilities and activities are not related to patient care. Only costs that are properly chargeable to necessary patient care are allowable. Auto insurance expenses of the related company and a vehicle that was not used by the Facility were included in costs used to determine the Facility's rate. However, documentation to fully establish patient care related use for the vehicles was not maintained by the Facility. Since, this cost is not related to nursing facility patient care, it was disallowed. Regulations: 10 NYCRR Sections 86-2.17(a) & (d), PRM-1 Sections 2102.3, 2105.9, & 2300	Auto Ins.	006	962	962	962	962	2,395

QUEENS CENTER FOR REHABILITATION AND RESIDENTIAL HEALTHCARE - AUDIT #08-1979

RATE PERIODS JUNE 4, 2004 THROUGH DECEMBER 31, 2007

PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

	DESCRIPTION	COST CTR.	RATE PERIODS				
			06/04/04 - 12/31/04	2005	01/01/06 - 03/31/06	04/01/06 - 12/31/06	2007
7. ORGANIZATION/START-UP COST DISALLOWANCES							
a) Providers receiving payments on the basis of reimbursable costs are to provide adequate cost data on financial and statistical records that can be verified on audit. The Facility could not provide supporting documentation for portions of the reported Organization/Startup costs resulting in disallowances. Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Sections 2300 & 2304	Orgn./Strt.-Up.	005	789	789	789	789	
b) Costs not related to patient care are costs that are not appropriate or necessary and proper in developing and maintaining the operation of patient care facilities and activities. Only costs properly chargeable to necessary patient care are allowable. Reported organization costs included general consultation expenses that are not related to patient care of the Facility and should not be included in the Facility's rate computation. Consequently, disallowances were necessary. Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Sections 2102.3 & 2132	Orgn./Strt.-Up.	005	175	175	175	175	
8. SALES TAX DISALLOWANCES							
The Facility calculated sales tax on the General Ledger (G/L) account total of operating costs and reported that amount as a property expense. However, G/L total included expenses not subject to sales tax. Elimination of sales tax from the non-taxable expenses resulted in a reduction of operating costs. On audit, expenses not subject to sales tax were eliminated from the sales tax calculation. The sales tax which was eliminated from the property costs were added back to operating costs to properly reflect the actual operating costs. See corresponding adjustment #7 in Exhibit III. Regulations: 10 NYCRR Sections 86-2.17(a)	Sales Tax	005	17,775	17,775	17,775	17,775	2,809
9. WORKING CAPITAL INTEREST EXPENSE DISALLOWANCE							
Providers receiving payments on the basis of reimbursable costs are required to provide adequate cost data based on financial and statistical records that can be verified on audit. Cost data must be current, accurate, and in sufficient detail. Further to be considered as an allowable cost, debt generating interest shall be incurred to satisfy a financial need and be necessary and proper. Additionally, interest on the current indebtedness shall require the approval of the Commissioner when such interest expense exceeds the interest threshold established for that calendar year. The Facility was unable to adequately substantiate reported working capital expense and approval from the Commissioner for exceeding the threshold. Additionally, the Facility gave substantial amount of interest free loans to the operators and to an unrelated entity thus improperly creating the necessity for the working capital loan. Consequently, working capital interest expense was disallowed. Regulations: 10 NYCRR Sections 86-2.17(a) & (d), 86-2.20, & 2.20(d)(2)(i), PRM-1 Sections 202.1, 202.2, 2300 & 2304, Public Health Law, Sections 2808, Paragraph 22-a	WC Interest	005	39,312	39,312	39,312		
Total Disallowances/(Allowances)			\$ 184,342	\$ 208,740	\$ 261,000	\$ 221,688	\$ 91,283
TOTAL AUDITED PROPERTY EXPENSE			<u>\$ 1,115,767</u>	<u>\$ 1,088,356</u>	<u>\$ 732,402</u>	<u>\$ 732,402</u>	<u>\$ 942,554</u>

QUEENS CENTER FOR REHABILITATION AND RESIDENTIAL HEALTHCARE - AUDIT #08-1979
RATE PERIODS JUNE 4, 2004 THROUGH DECEMBER 31, 2007
PER DIEM DISALLOWANCES

PER DIEM ADJUSTMENT – HEALTH PERSONNEL RECRUITMENT AND RETENTION (HRR)

Based upon the documentation submitted with the draft report response, the disallowance has been eliminated.

QUEENS CENTER FOR REHABILITATION AND RESIDENTIAL HEALTHCARE - AUDIT #08-1979
RATE PERIODS JUNE 4, 2004 THROUGH DECEMBER 31, 2007
CORRECTION OF PATIENT DAYS

The audit of patient day statistics disclosed that the patient days reported were understated in rate year 2005 and overstated in rate year 2006. The following adjustments were necessary to include the proper days in the rate calculations.

Regulation: 10 NYCRR Section 86-2.8(c)

	<u>RATE PERIODS</u>	
	<u>2005</u>	<u>2006</u>
Patient Days in Promulgated Rates	62,212	62,874
Patient Days per Audit	<u>62,330</u>	<u>62,330</u>
Understated/(Overstated) Patient Days	<u>118</u>	<u>(544)</u>

QUEENS CENTER FOR REHABILITATION AND RESIDENTIAL HEALTHCARE - AUDIT #08-1979
RATE PERIODS JUNE 4, 2004 THROUGH DECEMBER 31, 2007
RETURN ON AND RETURN OF REAL PROPERTY EQUITY DISALLOWANCES/(ALLOWANCES)

	RATE PERIODS			
	<u>06/04/04 - 12/31/04</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<u>Return of Equity Calculation</u>				
Real Property Historical Cost per HE-12B	\$ 738,164	\$ 738,164	\$ 738,164	\$ 738,164
Audit Disallowances/(Allowances)	<u>738,164</u>	<u>738,164</u>	<u>738,164</u>	<u>738,164</u>
Audited Historical Cost	\$ -	\$ -	\$ -	\$ -
Less: Accumulated Reimbursement	<u>74,375</u>	<u>89,250</u>	<u>104,125</u>	<u>119,000</u>
Audited Net Equity (Not Less than Zero)	\$ -	\$ -	\$ -	\$ -
Remaining Useful Life	<u>35</u>	<u>34</u>	<u>33</u>	<u>32</u>
Audited Return of Equity	\$ -	\$ -	\$ -	\$ -
Promulgated Return of Equity	<u>16,178</u>	<u>16,178</u>	<u>16,178</u>	<u>16,178</u>
Disallowance/(Allowance)	<u>\$ 16,178</u>	<u>\$ 16,178</u>	<u>\$ 16,178</u>	<u>\$ 16,178</u>
<u>Return on Equity Calculation</u>				
Audited Net Equity	\$ -	\$ -	\$ -	\$ -
Less: ½ Current Return of Equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Audited Net Investment	\$ -	\$ -	\$ -	\$ -
Rate of Return	<u>5.15%</u>	<u>4.95%</u>	<u>4.45%</u>	<u>4.90%</u>
Audited Return on Equity	\$ -	\$ -	\$ -	\$ -
Promulgated Return on Equity	<u>28,744</u>	<u>26,827</u>	<u>23,397</u>	<u>25,369</u>
Disallowance/(Allowance)	<u>\$ 28,744</u>	<u>\$ 26,827</u>	<u>\$ 23,397</u>	<u>\$ 25,369</u>

Note: This real property return on/of is for use of an office space at a related company's building by the prior owner

QUEENS CENTER FOR REHABILITATION AND RESIDENTIAL HEALTHCARE - AUDIT #08-1979
RATE PERIODS JUNE 4, 2004 THROUGH DECEMBER 31, 2007
RETURN ON AVERAGE EQUITY DISALLOWANCES/(ALLOWANCES)

<u>Return on Average Equity</u>	RATE PERIODS			
	<u>06/04/04 - 12/31/04</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Average Equity per RHCF-4	\$ 2,603,927	\$ 2,603,927	\$ 2,603,927	\$ 3,240,482
HE-12B Adjustments:				
• Due From Parent/Affiliate	-	-	-	(461,624)
• Goodwill and Intangible Assets	-	-	-	(9,217,010)
Average Equity per HE-12B	\$ 2,603,927	\$ 2,603,927	\$ 2,603,927	\$ (6,438,152)
Audit Adjustments:				
• Goodwill and Intangible Assets	<u>(9,247,590)</u>	<u>(9,247,590)</u>	<u>(9,247,590)</u>	<u>-</u>
Audited Remaining Equity	\$ (6,643,663)	\$ (6,643,663)	\$ (6,643,663)	\$ (6,438,152)
Less: Audited Net Investment	<u>1,029,454</u>	<u>347,358</u>	<u>-</u>	<u>-</u>
Audited Remaining Equity	\$ (5,614,209)	\$ (6,296,305)	\$ (6,643,663)	\$ (6,438,152)
Rate of Return	<u>1.01%</u>	<u>1.87%</u>	<u>3.76%</u>	<u>4.90%</u>
Equity Returned Per Audit	\$ -	\$ -	\$ -	\$ -
Equity Returned HE-12B	<u>15,902</u>	<u>42,197</u>	<u>97,907</u>	<u>-</u>
Disallowance/(Allowance)	<u>\$ 15,902</u>	<u>\$ 42,197</u>	<u>\$ 97,907</u>	<u>\$ -</u>